

Specific Instructions, continued

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Overview. Form 990, Part VII requires the listing of the organization's current or former officers, directors, trustees, key employees, and highest compensated employees, and current independent contractors, and reporting of certain compensation information relating to such persons.

All organizations are required to complete Part VII, and when applicable, Schedule J, Compensation Information, for certain persons. Compensation must be reported for the calendar year ending with or within the organization's tax year. In some cases, persons are reported in Part VII or Schedule J only if their reportable compensation (as defined below) or total compensation (as defined below) from the organization and related organizations (as defined in the Schedule R instructions) exceeds certain thresholds. In some cases, compensation from an unrelated organization must be reported on the Form 990. See the instructions for Part VII, Section A, line 5.

Section A requires reporting of officers, directors, trustees, key employees and up to five of the organization's highest compensated employees. Compensation from related organizations must also be taken into account in determining a person's compensation and reported separately in Section A, Columns (E) and (F). Section A provides space for listing up to 34 different persons.

Use Schedule J-2, Continuation Sheet for Compensation, if more space is needed to list additional persons. Use as many Schedules J-2 as needed.

Section B requires reporting of the five highest compensated independent contractors. Section B does not require reporting of compensation from related organizations.

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

Overview. Organizations are required to list the following officers, directors, trustees, and employees of the organization whose reportable compensation from the organization and related organizations (as defined in the Schedule R instructions) exceeded the following thresholds:

- current officers, directors, and trustees (no minimum compensation threshold)
- current key employees (\$150,000)
- current five highest compensated employees other than officers, directors, trustees, or listed key employees (\$100,000)
- former officers, key employees, and highest compensated employees (\$100,000)
- former directors and trustees (\$10,000 in the capacity as a former director or trustee)

Special rules described below apply for disregarded entities of which the organization is the sole member.

Director or trustee. A “director or trustee” is a member of the organization’s governing body, but only if the member has any voting rights. Members of advisory boards that do not exercise any governance authority over the organization are not considered directors or trustees.

An “institutional trustee” is a trustee that is not an individual or natural person but an organization. For instance, a bank or trust company serving as the trustee of a trust is an institutional trustee.

Officer. An officer is a person elected or appointed to manage the organization’s daily operations, such as a president, vice-president, secretary, or treasurer. The officers of an organization may be determined by reference to its organizing document, bylaws, or resolutions of its governing body, but in all cases include those officers required by applicable state law. For purposes of Form 990 reporting, treat the organization’s top management official as an officer.

Key employee. For purposes of Form 990 reporting, a key employee is an employee of the organization (other than an officer, director, or trustee) who (1) has responsibilities, powers or influence over the organization as a whole that is similar to those of officers, directors, or trustees; (2) manages a discrete segment or activity of the organization that represents 5% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or (3) has or shares authority to control or determine 5% or more of the organization’s capital expenditures, operating budget, or compensation for employees. An individual that is not an employee of the organization (or of a disregarded entity of the organization) is treated as a key employee if he or she serves as a director or similar fiduciary of a disregarded entity of the organization and otherwise meets the standards of a key employee set forth above. See below for the treatment of certain employees of a disregarded entity as a key employee of the organization. *Exclude any person whose reportable compensation from the organization and related organizations does not exceed \$150,000.* Management companies and similar entities that are independent contractors should not be reported as key employees.

Caution: The form indicates that all current key employees must be listed “regardless of amount of compensation.” By definition, a person should not be listed as a key employee unless his or her reportable compensation from the organization and related organizations exceeds \$150,000.

In the examples set forth below, assume that the individual involved is an employee of the organization with reportable compensation in excess of \$150,000, but is not an officer, director, or trustee.

Example 1. T is a large 501(c)(3) university. L is the dean of the law school of T, which generates more than 5% of the revenue of T, including contributions from alumni and foundations. L does not have ultimate responsibility for managing the university as whole. However, as dean of the law school, L plays a key role in faculty hiring and determines the law school’s capital expenditures and operating budget, which

represents more than 5% of the capital expenditures and operating budget of T. Under these facts and circumstances L is a key employee of T.

Example 2. S chairs a small academic department in the College of Arts and Sciences of the same university T described above. As department chair, S supervises faculty in the department, approves the course curriculum, and oversees the operating budget for the department. Even though S manages the department, that department represents less than 5% of T's activities, assets, income, expenses, and operating budget. Under these facts and circumstances, S is not a key employee of T.

Example 3. U is a large acute-care 501(c)(3) hospital. U employs X as a radiologist. X gives instructions to staff with respect to the radiology work X conducts, but X does not supervise other U employees or manage 5% or more of U's operations. Under these facts and circumstances, X is not a key employee of U.

Example 4. W is a cardiologist and head of the cardiology department of the same hospital U described above. The cardiology department is a major source of patients admitted to U and consequently represents more than 5% of U's income, as compared to U as a whole. As department head, W manages the cardiology department. Under these facts and circumstances, W is a key employee of U.

Five Highest Compensated Employees. The organization is required to list the highest compensated employees whose reportable compensation combined from the organization and related organizations is greater than \$100,000 for the year and who are not also an officer, director, trustee, or listed key employee of the organization. The organization is not required to list more than the top five such persons, ranked by amount of reportable compensation. Use the calendar year ending with or within the organization's tax year for determining the organization's current five highest compensated employees.

Reportable compensation. Reportable compensation consists of:

- For officers and other employees --- amounts reported in Box 5 of Form W-2.
- For directors and individual trustees --- amounts reported in Box 7 of Form 1099-MISC (plus Box 5 of Form W-2 if also compensated as an officer or employee).
- For institutional trustees --- fees for services paid pursuant to a contractual agreement or statutory entitlement. While the compensation of institutional trustees must be reported in Form 990, Part VII, it need not be reported in Schedule J.

If the organization does not file a Form W-2 or 1099-MISC because the amounts paid were below the threshold reporting requirement, then include and report the amount actually paid. Do not apply this rule to related organizations.

TIP: Corporate officers are considered employees for purposes of Form W-2 reporting, unless they perform no services as officers, or perform only minor services and neither receive nor are entitled to receive, directly or indirectly, any compensation. Corporate directors are considered independent contractors, not employees, and director compensation, if any, generally is required to be reported on Form 1099-MISC. See Regulations section 31.3401(c)-1(f).

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To determine whether an individual received more than \$100,000 (or \$150,000) in reportable compensation in the aggregate from the organization and related organizations, add the following amounts:

- Amounts reported in Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC issued to the individual by the organization and all related organizations.
- Amounts reported in Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC issued to the individual by each related organization. Disregard payments from a related organization if below \$10,000.

To determine whether an individual received solely in the capacity as a former trustee or director of the organization more than \$10,000 in reportable compensation, in the aggregate, from the organization and all related organizations (and thus must be reported in Form 990, Part VII and Schedule J, Part II), add the amounts reported in Box 7 of all Forms 1099-MISC and, if relevant, Box 5 of all Forms W-2 issued to the individual by the organization and all related organizations, to the extent that such amounts relate to the individual's past services as a trustee or director of the organization (disregarding payments from a related organization if below \$10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization).

Other compensation. Other compensation includes compensation other than reportable compensation, including deferred compensation not currently reportable on Form W-2, Box 5 or Form 1099-MISC, Box 7, and certain nontaxable benefits, as discussed in detail in the Schedule J, Part II instructions. See the instructions for other compensation below, which includes a table to show where and how to report certain types of compensation on Part VII and Schedule J.

Disregarded entities. Disregarded entities (such as a limited liability company that is wholly owned by the organization and not treated as a separate entity for federal tax purposes) are treated as part of the organization rather than as related organizations for purposes of Form 990, Part VII and Schedule J. A person is not considered an officer or director of the organization by virtue of being an officer or director of a disregarded entity, but he or she may qualify as a highest compensated employee of the organization, or as a key employee. An officer, director, or employee of a disregarded entity is a key employee of the organization if the person has responsibilities, powers or influence over a discrete segment or activity of the disregarded entity that represents at least 5 percent of the activities, assets, income or expenses of the filing organization as a whole, or has or shares authority to control or determine the disregarded entity's capital expenditures, operating budget, or compensation for employees that constitutes at least 5 percent of the filing organization's respective items as a whole. If an officer or director of a disregarded entity also serves as an officer, director, trustee, or key employee of the organization, report this individual as an officer, director, trustee, or key employee, as applicable, of the organization, and add the compensation, if any, paid by the disregarded entity to this individual to the compensation, if any, paid directly by the organization to this individual. Report the total aggregate amount in Column (D) rather than in Columns (D) and (E).

Group returns. A central or parent organization (as described in General Instruction I) that files a group Form 990 return must generally file a separate Form 990 for itself (unless it is excepted from filing Form 990) in addition to the group return. With respect to Form 990, Part VII and Schedule J, Part II, however, the central organization has two choices, as follows: (1) file separately a Form 990, Part VII and Schedule J, Part II for itself with its return, and a Form 990, Part VII and Schedule J, Part II with the group return for each subordinate included in the group return, or (2) file a single consolidated Form 990, Part VII and Schedule J, Part II for itself and all included subordinates with the group return. The central organization must state in Schedule O whether it has adopted the first or second method of reporting and may not change it without IRS consent. If an organization reports by the consolidated method, it must report the five highest compensated employees and independent contractors above \$100,000 for each subordinate, not the five highest for the whole group. If an organization reports by the consolidated method and one or more officers, directors, trustees, key employees, or highest compensated employees receives compensation from more than one organization in the group, the person's compensation from the several organizations must be reported once but not more than once. Regardless of the method used, indicate which organization(s) paid the compensation.

Column (A). Name and title. For each person required to be listed, enter the name in the top of each row and the person's title or position with the organization in the bottom of the row. List all titles or positions if more than one. Use the Schedule J-2 Continuation Sheet if additional space is needed for additional persons or titles.

Column (B). Average hours per week. For each person listed in column (A), estimate the average hours per week devoted to the organization and to all related organizations for which compensation is reported during the calendar year ending with or within the organization's tax year. Entry of a specific number is required for a complete answer. Statements such as "as needed," "as required," or "40+" are unacceptable. Hours devoted to related organizations may be reported in Schedule O.

Column (C). Position. For each person listed in column (A), check all applicable boxes for positions with the organization.

Current and former. A "current" officer, director, trustee, or key employee is a person that was an officer, director, trustee, or key employee at any time during the organization's tax year.

Do not check the "Former" box if the person was a current officer, director, trustee, key employee, or among the five highest compensated employees at any time during the organization's tax year. A current employee may, however, be reported in Form 990, Part VII and Schedule J, Part II because he or she formerly served as a director or trustee and received or accrued more than \$10,000 in the capacity as a former director or trustee; in such case indicate the individual's former status in his or her titles.

Check the "Former" box only if the organization reported (or should have reported) an individual as an officer, director, trustee, key employee, or one of the five highest compensated employees on any of the organization's **prior five** Forms 990, 990-EZ or 990-PF, applying the instructions in effect for such years. If a person was reported (or

should have been reported) as an officer, director, trustee, key employee, or one of the five highest compensated employees on any of the organization's prior five Forms 990, 990-EZ or 990-PF, and the person was still employed at any time during the organization's tax year either (1) by the organization in a lesser capacity; or (2) by a related organization in any capacity, check only the "Former" box.

If the organization uses a non-calendar tax or fiscal year, use the tax year to determine the organization's "current" officers, directors, and trustees, and the calendar year ending within the tax year to determine the organization's "current" key employees and five highest compensated employees.

Employee. An employee is a person who performs services for an employer, if the employer has the right to control and direct the results of the work and the way in which it is done. Management companies and similar entities that are independent contractors should not be reported as employees.

Columns (D) & (E). Reportable compensation. Enter the amounts required to be reported on Form W-2, Box 5 and/or Form 1099-MISC, Box 7 issued to the person for the calendar year ending with or within the organization's tax year. For institutional trustees that do not receive a Form 1099-MISC, enter the amount that the organization would have reported in Box 7 if a 1099-MISC had been required.

Treat amounts paid by a common paymaster as defined in Regulations section 31.3121(s)-1(b) for services performed for the organization as if paid directly by the organization. Likewise, treat amounts paid by a common paymaster for services performed for a related organization as if paid directly by the related organization.

For purposes of column (E), the organization need not include payments from a single related organization if less than \$10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization. For example, if an officer of the organization received compensation of \$6,000, \$15,000 and \$50,000 from three separate related organizations, the organization needs to report only \$65,000 in column (E) for the officer.

Volunteer Exception. The organization need not report in Column (E) compensation from a related organization paid to a volunteer officer, director, or trustee of the organization if the related organization is a for-profit organization and is not owned or controlled directly or indirectly by the organization or one or more related tax-exempt organizations.

Bank or Financial Institution Trustee Exception. If the organization is a trust with a bank or financial institution trustee that is also trustee of another trust, it need not report in Column (E) compensation from the other trust for services provided as the trustee to the other trust.

Column (F). Other compensation. Other compensation includes deferred compensation not currently reportable on Form W-2, Box 5 or Form 1099-MISC, Box 7, and nontaxable benefits other than disregarded benefits, as discussed in the Schedule J, Part II instructions. Treat amounts paid or accrued under a deferred compensation

plan, or held by a deferred compensation trust, that is established, sponsored, or maintained by the organization (or a related organization) as paid, accrued, or held directly by the organization (or the related organization). Report a reasonable estimate if actual numbers are not readily available. Refer to the Schedule J, Part II instructions to determine which nontaxable benefits must be reported as other compensation.

\$10,000 exclusions for certain “other compensation” items. The following items of compensation must be reported as “other compensation” in all cases regardless of the amount (unless the \$10,000 exception for compensation from a related organization applies):

1. Tax-deferred contributions by the employer and employee to a qualified defined-contribution retirement plan.
2. The value of health benefits provided by the employer, and contributions by the employee to a health benefit plan, whether or not qualified, that are not included in reportable compensation. For this purpose, health benefits provided by the employer include payments of health benefit plan premiums, medical reimbursement and flexible spending programs, and health benefits provided by employer self-insurance. Health benefits include dental, optical, drug, and medical equipment benefits. They do not include disability or long-term care insurance premiums or benefits.
3. Tax-deferred contributions by the employer and employee to a non-qualified retirement or deferred compensation plan, and the annual increase in earnings of such plan, or increase in actuarial value of a qualified defined benefit plan, whether or not funded, vested, or subject to a substantial risk of forfeiture.

If a person's compensation does not need to be reported in Schedule J, Part II, then the organization generally is not required to report any other item of “other compensation” (as set forth in the table below) if its total value is less than \$10,000 for the calendar year ending with or within the organization's tax year.

The \$10,000 exclusions are to be applied to all individuals in determining whether the individual's total reportable and other compensation exceeds the thresholds set forth in Form 990, Part VII, Section A, lines 3 and 4. If the total exceeds the threshold, then the \$10,000 exclusions are not applied to the individual's compensation reported either in Form 990, Part VII or in Schedule J. The \$10,000 exclusions apply separately with respect to each item of other compensation from the organization and from each related organization.

Example.

Organization X provides the following compensation to its current officer:

\$105,000	reportable compensation
5,000	tax-deferred employer contribution to qualified defined-contribution retirement plan
5,000	pre-tax employee contribution to same plan
4,000	nontaxable employer contribution to health benefit plan
4,000	pre-tax employee contribution to same plan
4,000	nontaxable dependent care assistance
500	nontaxable group life insurance premium

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8,000 moving expense (nontaxable as qualified under section 132)

Organization Y, a related organization, also provides compensation to the officer as follows:

\$20,000	reportable compensation
1,000	tax-deferred employer contribution to qualified defined-contribution retirement plan
1,000	pre-tax employee contribution to same plan
5,000	nontaxable tuition assistance

The officer receives no compensation in the capacity as a former director or trustee of X, and no unrelated organization pays the officer for services provided to X. The organization may disregard as other compensation \$4500 from the organization (dependent care and group life) and \$5000 from the related organization (tuition) in determining whether the officer's total reportable and other compensation from the organization and related organizations exceeds \$150,000. In this case, total reportable compensation is \$125,000, and total other compensation (excluding the excludible items below \$10,000) is \$20,000. Under these circumstances, the officer's total reportable and other compensation (\$145,000) is not reportable in Schedule J, and therefore the dependent care, group life, and tuition items need not be reported as other compensation in Form 990, Part VII, Section A, Column (F). If instead, the officer's reportable compensation from Y were \$30,000 rather than \$20,000, then the officer's total reportable and other compensation (\$155,000) would be reportable in Schedule J, and the dependent care, group life, and tuition items would have to be reported as other compensation in both Form 990, Part VII as well as Schedule J. In any event, the moving expense is not reportable as other compensation, as section 132 fringes are generally disregarded.

Compensation table for reporting on Part VII or Schedule J. The following table may be useful in determining how and where to report items of compensation and benefits in Form 990, Part VII, Section A and in Schedule J, Part II. The list is not comprehensive but covers most items for most organizations. Many items of compensation may or may not be taxable or currently taxable, depending on the plan or arrangement adopted by the organization and other circumstances. The list attempts to take into account these varying facts and circumstances. The list is merely a guideline to report amounts for those persons required to be listed. In all cases, items included in Box 5 of Form W-2 and Box 7 of Form 1099-MISC are required to be reported in Part VII, Section A and, for applicable persons, Schedule J, Part II, Column B.

Type of compensation	Where to report				
	Form 990, Part VII, Section A, Col. (D) or (E)			Form 990, Part VII, Section A, Col. (F)	
	Schedule J, Part II, Col.				
	B(i)	B(ii)	B(iii)	C	D
Base salary/wages/fees paid	x				
Base salary/wages/fees deferred (taxable)	x				

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Base salary/wages/fees deferred (nontaxable)				x	
Bonus paid (including signing bonus)		x			
Bonus deferred (taxable in current year)		x			
Bonus deferred (not taxable in current year)				x	
Incentive compensation paid		x			
Incentive compensation deferred (taxable in current year)		x			
Incentive compensation deferred (not taxable in current year)				x	
Severance or change of control payments made			x		
Sick pay paid by employer	x				
Third party sick pay			x		
Other compensation amounts deferred (taxable in current year)		x			
Other compensation amounts deferred (not taxable in current year)				x	
Tax gross-ups paid			x		
Vacation/sick leave cashed out			x		
Stock options at time of grant				x	
Stock options at time of exercise			x		
Stock awards paid by taxable organizations substantially vested			x		
Stock awards paid by taxable organizations not vested				x	
Stock equivalents paid by taxable organizations substantially vested			x		
Stock equivalents paid by taxable organizations not vested				x	
Loans—forgone interest or debt forgiveness			x		
Contributions (employer) to qualified retirement plan				x	
Contributions (employee deferrals) to 401(k) plan				x	
Contributions (employee deferrals) to 403(b) plan			x		
Qualified retirement plan benefit accruals (for defined benefit plan, reasonable estimate of increase in actuarial value)				x	
Qualified retirement plan (defined				x	

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contribution) investment earnings					
Taxable distributions from qualified retirement plan (reported on Form 1099-R)					
Distributions from nongovernmental 457(b) plan					
Amounts includible in income under 457(f)			x		
Amounts deferred (plus earnings) under 457(b) plan (vested)			x		
Amounts deferred (plus earnings) under 457(b) plan (nonvested)				x	
Contributions to nonqualified plans (vested)			x		
Contributions to nonqualified plans (nonvested)				x	
Increase in earnings of nonqualified plan			x		
Cost of current insurance protection under compensatory split dollar life insurance arrangement			x		
Scholarships and fellowship grants (taxable)			x		
Health benefit plan premiums (taxable)			x		
Health benefit plan premiums (nontaxable)					x
Medical reimbursement and flexible spending programs (taxable)			x		
Medical reimbursement and flexible spending programs (nontaxable)					x
Other health benefits (taxable)			x		
Other health benefits (nontaxable)					x
Life, disability, or long-term-care insurance (taxable)			x		
Life, disability, or long-term-care insurance (nontaxable)					x
Split-dollar life insurance					
Housing provided by employer (taxable)			x		
Housing provided by employer (nontaxable)					x
Personal legal services (taxable)			x		
Personal legal services					x

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(nontaxable)					
Personal financial services (taxable)			X		
Personal financial services (nontaxable)					X
Dependent care assistance (taxable)			X		
Dependent care assistance (nontaxable)					X
Adoption assistance (taxable)			X		
Adoption assistance (nontaxable)					X
Tuition assistance for family (taxable)			X		
Tuition assistance for family (nontaxable)					X
Cafeteria plans (taxable)			X		
Cafeteria plans (nontaxable)					X
Liability insurance (taxable)			X		
Employer-provided automobile (taxable)			X		
Employer-subsidized parking (taxable)			X		
Travel (taxable)			X		
Moving (taxable)			X		
Meals and entertainment (taxable)			X		
Social club dues (taxable)			X		
Spending account (taxable)			X		

Line 3. Compensation thresholds for Schedule J reporting of former persons.

Complete Schedule J for the following:

- each individual listed in Section A as a former **officer**, former **key employee**, or a former **highest compensated employee** (among the five highest in any of the five prior years) who received more than \$100,000 of reportable compensation for the current year from the organization and/or related organizations. To determine whether an individual received more than \$100,000 in reportable compensation in the aggregate from the organization and related organizations, add the amounts reported in Box 5 of all Forms W-2 and Box 7 of all Forms 1099-MISC issued to the individual by the organization and all related organizations (disregarding amounts from a related organization if below \$10,000) for the calendar year ending with or within the organization's tax year. This computation includes payments for past services as a former officer, key employee or highest compensated employee of the organization and payments for present services in any capacity to the organization or a related organization.
- each individual that received, solely in the capacity as a former **director** or former **trustee** of the organization, more than \$10,000 of reportable compensation during the year from the organization and/or related organizations.

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To determine whether an individual received or accrued more than \$10,000 in reportable compensation solely in the capacity as a former trustee or director of the organization, add the amounts reported in Box 7 of all Forms 1099-MISC and, if relevant, Box 5 of all Forms W-2 issued to the individual by the organization and all related organizations ((disregarding payments from a related organization if below \$10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization) for the calendar year ending with or within the organization's tax year, to the extent that such amounts relate to the individual's past services as a trustee or director of the organization (not of a related organization).

Line 4. Schedule J reporting of listed individuals with compensation greater than \$150,000. Complete Schedule J for each individual listed in Section A who received or accrued more than \$150,000 of reportable and other compensation from the organization and related organizations. To determine whether any listed individual received or accrued more than \$150,000 of reportable and other compensation, add all compensation included in columns (D), (E), and (F) of Section A.

The following chart explains which officers, directors, trustees, key employees, and highest compensated employees must be reported in Form 990, Part VII, Section A, and which in Schedule J as well. See also line 5 for additional individuals who must be reported in Schedule J, Part II.

Position	Current or former	List in Form 990, Part VII, Section A:	List in Schedule J:
Directors and trustees	current	all	if reportable and other compensation > \$150,000 in the aggregate from organization and related organizations (except institutional trustee)
	former	if reportable compensation in capacity as former director or trustee > \$10,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A (except institutional trustee)
Officers and key employees	current	Key employees if reportable compensation > \$150,000 in the aggregate from organization and related organizations, and all officers	if reportable and other compensation > \$150,000 in the aggregate from organization and related organizations
	former	if reportable compensation > \$100,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A

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Other five highest compensated employees	current	if reportable compensation > \$100,000 in the aggregate from organization and related organizations	if reportable and other compensation > \$150,000 in the aggregate from organization and related organizations
	former	if reportable compensation > \$100,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A

Line 5. Schedule J reporting for compensation from certain unrelated organizations. Complete Schedule J for any individual listed in Form 990, Part VII, Section A if the person receives or accrues compensation from an unrelated organization for services rendered to the organization in the person's capacity as an officer, director, trustee, or employee of the organization. Also, specify in Part III of Schedule J the name of the unrelated organization, the type and amount of compensation it paid or accrued, and the person receiving or accruing such compensation. The organization must report as compensation amounts received or accrued by the person from the unrelated organization for services rendered to the organization, whether the unrelated organization treats the amounts as compensation, grants, or otherwise. The organization is required to report compensation from an unrelated organization only if it has knowledge of the compensation arrangement.

The compensation from the unrelated organization for services provided to the organization must be reported as compensation from the organization both in Form 990, Part VII and in Schedule J. The amounts from the unrelated organization must be taken into account in determining whether the person must be reported in Form 990, Part VII in the first place.

For purposes of line 5, disregard:

1. payments from a deferred compensation trust or plan established, sponsored, or maintained by the organization (or a related organization), and deferred compensation held by such trust or plan.
2. payments from a common paymaster for services provided to the organization (or to a related organization).
3. payments from an unrelated taxable organization that employs the individual and continues to pay the individual's regular compensation while the individual provides services without charge to the organization, but only if the unrelated organization does not treat the payments as a charitable contribution or distribution to the organization.

Example 1. A is the CEO of the organization. In addition to compensation paid by the organization to A, A receives payments from B, an unrelated corporation (using the definition of relatedness in Schedule R), for services provided by A to the organization. B also makes rent payments for A's personal residence. The organization is aware of the compensation arrangement between A and B, and does not treat the payments as paid by the organization for Form W-2 reporting purposes. The amounts paid by B to A

require that the organization answer “yes” to line 5 and complete Schedule J with respect to A.

Example 2. C is an attorney employed by a law firm that is not a related organization with respect to the organization. The organization and the law firm enter into an arrangement where C serves the organization, a 501(c)(3) legal aid society pro bono, on a full-time basis as its vice-president while continuing to receive her regular compensation from the law firm. The organization does not provide any compensation to C for the services provided by C to the organization, and does not report C’s compensation on Form W-2 or Form 1099-MISC. The law firm does not treat any part of C’s compensation as a charitable contribution to the legal aid society. Under these circumstances, the amounts paid by the law firm to C do not require that the organization answer “yes” to line 5.

Example 3. D, a volunteer director of the organization, is also the sole owner and CEO of M management company, which provides management services to the organization. The organization pays M an annual fee of \$150,000 for the management services. Under the circumstances, the amounts paid by M to D (in the capacity as owner and CEO of M) do not require that the organization answer “yes” to line 5. The organization must report in Schedule L, Part IV, however, the transaction with M, including the relationship between D and M.

Section B. Five Highest Compensated Independent Contractors

Complete this table for the five highest compensated independent contractors that received more than \$100,000 in compensation for services, whether professional services or other services, from the organization. Independent contractors include organizations as well as individuals. See Publication 1779 and Publication 15-A for distinguishing employees from independent contractors.

Column (C). Compensation. Enter the amount the organization paid, whether reported on Form 1099-MISC, Box 7 or paid pursuant to the parties’ agreement or applicable state law, for the calendar year ending with or within the organization’s tax year.

Compensation includes fees and similar payments to independent contractors but not reimbursement of expenses. However, for this purpose, the organization may report the gross payment to the independent contractor that includes expenses and fees if the expenses are insubstantial and not separately reported to the organization.

TIP: Form 1099-MISC is not always required to be issued for payments to an independent contractor.